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SUBJECT: Upstream Chief Misleads About Oil Production

1. (SBU) Summary: Outgoing Upstream Regulatory Chief Kardaya Warnika said publicly on April 24 that Indonesia is on track to meet its national petroleum production targets outlined in the most recent budget submission to Parliament. In a closed door meeting the day before, however, the heads of the major foreign oil companies in the country told Energy Minister Purnomo, Director General of Oil and Gas Luluk Sumiarso, and Warnika that their collective production was not likely to meet the government goals for the year. A wide range of contacts report ministries are under pressure by the president to demonstrate the fiscal situation remains under control despite soaring food and commodity prices. End summary.

¶2. (SBU) Upstream Regulatory Agency chief Kardaya Warnika, who is soon to be replaced due to poor performance, told reporters on April 24 that Indonesia's crude oil and condensate production averaged 977,600 barrels per day (bpd) until mid April, which was well above the target of 960,000 barrels in the most recent budget submission to Parliament. He claimed daily output in February topped 986,840 bpd and output reached 1 million bpd on several days throughout the first quarter. In 2007, Indonesian production averaged 954,000 barrels bpd, according to GOI statistics.

¶3. (SBU) On April 23 Warnika summoned all the foreign operators of production sharing contracts (PSCs) to a closed-door meeting that same day with Energy and Mineral Resources Minister Purnomo Yusgiantoro and Director General of Oil and Gas Luluk Sumiarso, according to several foreign energy company executives who attended.

Warnika opened the meeting, according to the expatriate managers, by announcing that the government needed help from their foreign partners to meet their budget targets for oil output. He said all ministries have been tasked with containing the budget pressures from skyrocketing food prices and sustained high energy prices. A wide range of our contacts report ministries are under pressure by the president to demonstrate the fiscal situation remains under control despite soaring food and commodity prices. Warnika reminded the group that the new budget calls for daily production to average 977,000 bpd. He then showed a slide that purported to show each foreign PSC-holder's current production levels, according to an expatriate manager who attended. The manager said the list added up almost precisely to 977,000.

¶4. (SBU) The assembled group of managers quickly set about dissecting the numbers, despite their concern about doing so in front of Minister Purnomo, said our contact. One foreign PSC holder, which was supposed to be producing this year at 12,000 bpd according to Warnika's chart, was in reality only producing 1,700 bpd, according to that company's general manager. Another was supposedly producing at 420,000 bpd, according to Warnika, but that firm's president said the actual figure was 404,000 bpd. In the end, the managers told Purnomo that they would do their best to reach a collective average of 960,000 bpd, but could make no promises. Many took the opportunity to underscore that their contractual obligations, as outlined in their annual budgets and works plans, were below the numbers needed to achieve even the more

modest level of 960,000 bpd. Despite the firm assurances to the contrary, Warnika left the meeting and promptly informed reporters about successful efforts of the Upstream Regulatory Agency to meet its budget numbers.

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